PURCELL ENERGY LTD.

2001 ANNUAL REPORT

Purcell Energy Ltd. is a Canadian oil and gas exploration and production company with one of North America's premier natural gas projects and an extensive and growing western Canada-based prospect inventory.


LEVERAGE

Leveraging cash flow from Fort Liard production has created a diversified base of prospects and new producing properties that enabled production to exceed 5,000 BOE per day.

1,081 BOE/d	**2,278 BOE/d**	**2,528 BOE/d**	**3,390 BOE/d**	**4,043 BOE/d**	**4,047 BOE/d**	**5,196 BOE/d**	**5,111 BOE/d**
Pre-Fort Liard production base.	Fort Liard production begins.	Growth trend confirms reservoir quality at Fort Liard.	Production ramps up; Fort Liard performance exceeds expectation.	2001 kicks off with production up 274% from first quarter 2000.	F25A well at Fort Liard on stream. Successful drilling in new areas adds to production base.	Fort Liard and new, high quality producing areas perform.	New Minton well on stream; will contribute to 2002 growth.

($000, except where indicated; 6 mcf = 1 bbl)	**Q4 2001**	Q4 2000	% change	**Year 2001**	Year 2000	% change
FINANCIAL						
Petroleum and natural gas sales	**7,354**	12,021	(39)	**37,471**	27,007	39
Revenue, net	**6,372**	11,312	(44)	**30,406**	24,750	23
Operating expenses	**1,615**	1,394	16	**6,393**	4,146	54
Per unit ($/BOE)	**3.43**	4.74	(23)	**3.80**	4.88	(22)
G&A expenses	**722**	540	34	**2,024**	1,478	37
Per unit ($/BOE)	**1.53**	1.73	(12)	**1.20**	1.74	(31)
Cash flow	**3,685**	8,965	(59)	**20,717**	17,890	16
Per share-basic ($)	**0.150**	0.367	(59)	**0.821**	0.730	12
Per share-diluted ($)	**0.145**	0.361	(60)	**0.789**	0.697	13
Net income	**355**	4,305	(92)	**7,414**	8,226	(10)
Per share-basic ($)	**0.014**	0.176	(92)	**0.294**	0.335	(12)
Per share-diluted ($)	**0.014**	0.173	(92)	**0.282**	0.320	(12)
Capital expenditures, net	**9,282**	5,866	58	**37,093**	22,104	68
Common shares outstanding (000)						
Weighted average, basic	**24,553**	24,409	1	**25,230**	24,510	3
Weighted average, diluted	**25,349**	24,830	2	**26,248**	25,656	2
End of period, basic	**26,513**	24,569	8	**26,513**	24,569	8
End of period, diluted	**29,215**	26,994	8	**29,215**	26,994	8
OPERATIONS						
Production						
Natural gas (mmcf/d)	**26.96**	17.00	59	**24.46**	10.71	128
Crude oil and liquids (bbls/d)	**618**	557	11	**528**	539	(2)
Equivalent (BOE/d)	**5,111**	3,390	51	**4,604**	2,322	98
Commodity prices (well head) (1)						
Natural gas ($/mcf)	**2.48**	6.47	(62)	**3.57**	4.99	(28)
Crude oil and liquids ($/bbl)	**21.01**	36.97	(43)	**29.02**	37.83	(23)

(1) Commodity prices do not include the loss on restructuring gas sales contracts.

MORE STRATEGIC

BY JAN M. ALSTON, PRESIDENT & CHIEF EXECUTIVE OFFICER

Capitalizing on solid performance from the world-class Fort Liard project, we've re-invested prudently in order to develop a broad base of opportunities. Not only is the potential substantial, but our ability to manage successfully through full-cycle exploration programs is now tested. We've done it. We are doing it. And we'll continue to make it happen.

We are pleased to report a year of consistent performance for Purcell Energy Ltd., against a backdrop of a tumultuous year for the North American economy and for Calgary's oil and gas industry. Purcell came through the year well positioned with a significantly diversified inventory of prospects, growing base of producing properties, solid balance sheet and enhanced expertise. After the record pace of consolidation in the oilpatch in 2001, Purcell is one of a small group of growing, junior oil and gas companies.

HIGHLIGHTS OF 2001

- Crossing 5,000 BOE per day in production during the year and expecting over 6,000 BOE per day in 2002 with Fort Liard performing as anticipated.
- Increased proved reserves year-over-year even during a year of early-stage opportunity development of full-cycle exploration projects.
- Diversifying the prospect base by investing $24 million in new projects including Pine Creek, Crossfield, and Rainbow in Alberta, Kiwigana, Tenaka and Ootla in B.C., and Minton, Saskatchewan.
- More than doubling the undeveloped land base to 120,000 net acres in early 2002 with exploration projects at Umbach and Slave, B.C., Pigeon Lake, Edson/Pine Creek, Turner Valley, and Peco, Alberta.
- Recording net revenue of $30.4 million, up 23 percent from 2000, and cash flow of $20.7 million ($0.82 per share, basic), up 16 percent over 2000.
- Realizing net asset value per share (diluted) of $4.48. Lower commodity prices were the cause of the reduction from $5.47 per share (diluted) registered at year end 2001.
- Ending 2001 with net debt of $21.4 million, less than one year's forward cash flow.

In many ways, the challenges in 2001 – the weakening economy, the sustained pressure on product prices in the second half of the year, the accelerated consolidation in the sector, and weak stock market interest – demonstrated Purcell's maturity as a company. Our solid base of production and cash flow from Fort Liard supported our program of building our inventory of opportunities. We were able to carry out our program as planned, whereas, at an earlier stage of our corporate life, we might have had to curtail plans and spending had we faced such pressures. Purcell is now well-rounded and well-positioned with the expertise and the experience to manage sophisticated and technically challenging exploration and development plays, while raising and prudently deploying the capital to fund them.

Program highlights during 2001 included the performance of three wells at Fort Liard, averaging 21.5 mmcf per day in production net to Purcell. In less than two years, the three wells at Fort Liard have produced in total almost 70 BCF of raw gas. As production from the existing wells declines, Purcell and its partners are considering further exploitation drilling in the second half of 2002. Increasing water production is expected from this type of pool and will require some facilities modifications over time. Additional wells will accelerate production and enhance recovery from this large gas pool.

Other highlights were successful wells drilled at Pine Creek, Crossfield and Rainbow, Alberta and Minton, Saskatchewan and the development of early stage prospects in areas of northeast B.C. and Alberta. At Minton, a 100 percent Purcell-owned well, drilled and put on production in December 2001, is capable of generating from two zones up to 500 barrels per day of light quality crude. With successes like Minton, we should see production from areas, other than Fort Liard generate 50 percent of Company daily production by the end of 2002 (in the absence of further drilling at Fort Liard). This reflects our success at leveraging the world-class Fort Liard play into other opportunities.

Purcell continues to pursue opportunities in the greater Fort Liard area with our partner. We have completed extensive evaluation of the region, including acquiring 160 kms of proprietary 2D seismic in order to identify new investment opportunities. Land sales are anticipated to take place by the end of 2002 or early in 2003. The Company is positioned to be competitive when the next land sale is announced.

Purcell also has exploration and drilling partnerships in other areas with major industry players that allow us to leverage our available capital and combine our expertise with other strong technical teams. This approach to our program accelerates our progress and is a key part of our risk management.

FORT LIARD LITERACY PROGRAM

An essential element of Purcell's business philosophy is to be a good corporate citizen by supporting initiatives that benefit all stakeholders. We believe in building long-term relationships by adding value to the communities where we are active. Purcell provides financial support for the Fort Liard Echo Dene School's Literacy Program. This program successfully teaches literacy skills to the young children of the community, directly leading to improved academic achievement.

OIL AND GAS PRICING

A difficult aspect of 2001 was the precipitous drop in gas prices through the year, with Purcell's December 2001

AECO/Sumas prices averaging CDN$3.55 per mcf. This price cycle combined with a forward-sales contract from January 1 through to October 1, 2001 was costly with a $5 million loss incurred for restructuring the agreement. Gas prices remained weak even into the winter 2001/2002 season prompting the Company to refrain from hedging. Purcell now sells almost all of its oil and gas production at spot market prices. Less than seven per cent of the Company's production is hedged, and that amount is contracted until October 31, 2002. Purcell's wellhead gas price realized in December 2001 was $2.68 per mcf, compared with an average price of $3.57 per mcf for the year. Similarly, the Company received $21.73 per barrel of oil in December 2001 and $29.02 per barrel for the year. Most experts and other producers are anticipating an improvement in both gas and oil prices throughout 2002. Our shareholders are fully exposed to the upside potential of recovering commodity prices.

During 2001, Purcell repurchased 2.2 million common shares through a normal course issuer bid. At year-end, a flow-through and common share private placement raised $9.12 million with 1.6 million flow-through common shares sold at $4.05 per share and 0.8 million common shares sold at $3.30 per share. The net effect of the share repurchase and new issue was 26.5 million shares outstanding at December 31, 2001. Proceeds from the financing will be used to maintain the Company's active exploration and development programs in the face of lower commodity prices at the start of 2002.

OUTLOOK FOR 2002

Purcell plans to invest $32 million in 2002 making the Company one of the few independent junior companies with an aggressive budget for 2002. Cash flow (anticipated at $23 million or $0.87 per share) and available bank lines are expected to fully cover the capital program. Cash flow is estimated based on production averaging 6,000 BOE per day for the year and prices averaging CDN$3.50 per mcf for gas and US$20 per barrel for WTI oil. Cash flow will grow in 2002 despite an increase in royalties levied on Fort Liard gas production to 30 percent (from one percent for 2001) after pay out of capital costs.

New production in 2002 will include a full year's contribution from the third well at Fort Liard, which was on stream for six months of 2001, as well as new production at Crossfield, Pine Creek and Rainbow, Alberta and Minton, Saskatchewan. Our production forecast expects modest success from exploration, despite our active program plans and a success rate of 100 percent for exploratory drilling in 2001, and also includes minor property acquisitions in our core areas.

The challenges and uncertainty during 2001 were unique, even to those of us who have participated in this industry through many cycles and a variety of world events and political climates. The volatility seen in gas prices during 2001 was unprecedented. It is a credit to the level of expertise and capability at Purcell that focus and enthusiasm were so consistently maintained during the entire year. Purcell is well positioned as a maturing and growing company. I thank our employees for their efforts, our Directors for their counsel and our shareholders for their support.

On behalf of the Board,

Jan M. Alston
President & Chief Executive Officer

April 4, 2002

MORE CHOICE

BY BRUCE J. MURRAY, CHIEF OPERATING OFFICER

A solid production base from Fort Liard continues to generate substantial cash flow as a true "Company-maker" play. What was, just a few years ago, an emerging Company with a high-impact prospect is now a Company with quality assets throughout western Canada. Purcell has in its 2002 and 2003 prospect inventory both the opportunity and the wherewithal to become a significantly larger oil and gas producer.

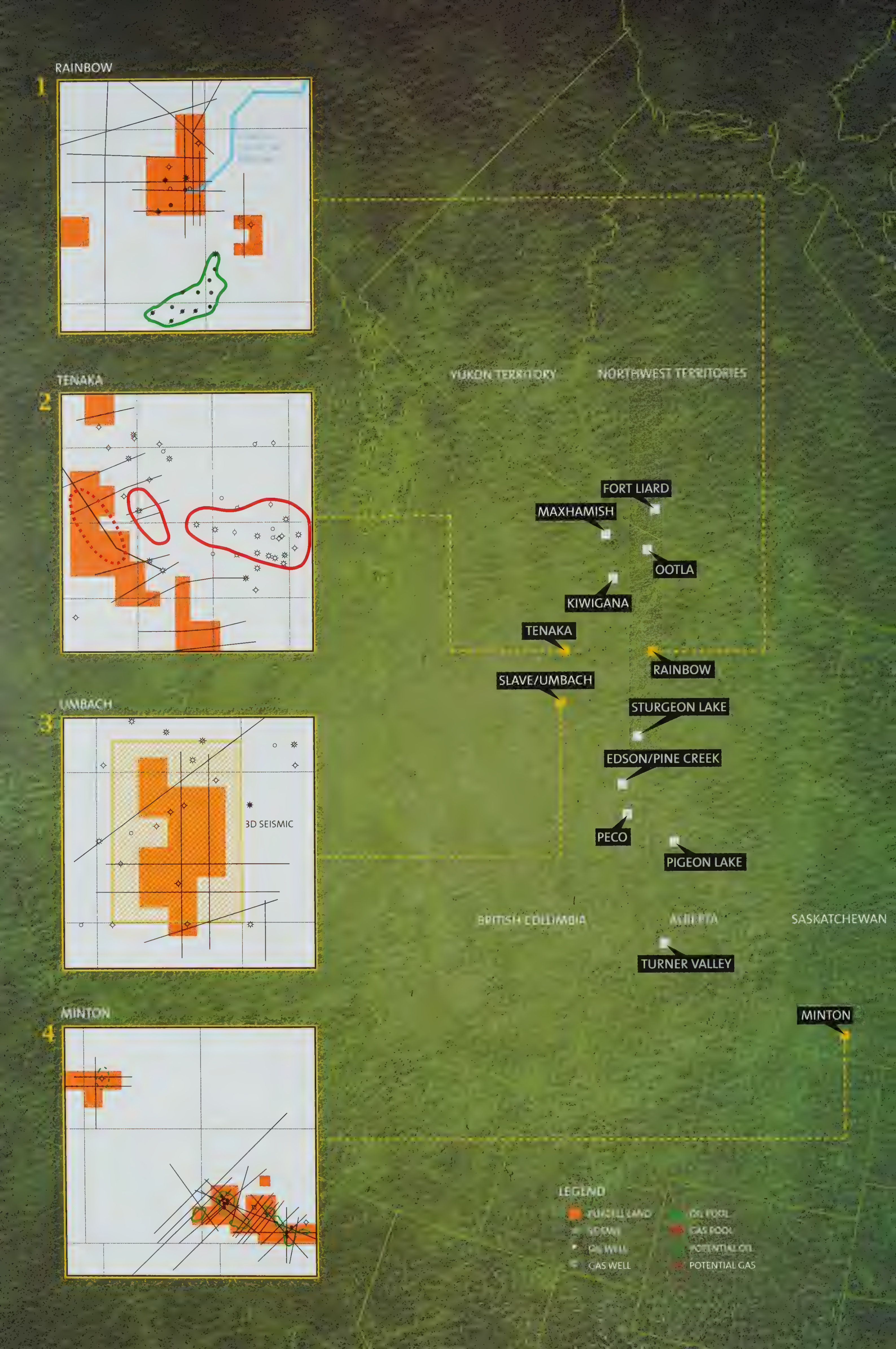
Purcell's strategy in 2001 was to expand its inventory of exploration projects. The Company spent $4.2 million acquiring exploration acreage and $4.9 million on seismic data. Purcell is now well positioned with diversified prospects, a growing number of producing properties, a solid balance sheet and enhanced expertise. A balanced portfolio of short, medium and long-term plays has been assembled in W5 and W6 Alberta, northeast British Columbia and southeast Saskatchewan. This will provide the platform for growth in 2002 and beyond.

MORE SOLID PERFORMANCE AT FORT LIARD

The prolific Fort Liard gas wells continue to produce strong cash flow for Purcell. Production to date from the three wells at Fort Liard approaches 70 BCF of raw gas. Increasing water production and declining gas rates were expected from this type of pool and will require some facilities modifications over time. Additional wells are being considered to accelerate production and enhance recovery from this large gas pool.

The Purcell operated F-25A well (60 percent interest) was recompleted and tied in June 25, 2001 and has consistently produced at over 9 mmcf per day. The water to gas ratio has declined to less than 8 bbls per mmcf from initial rates exceeding 25 bbls per mmcf.

The K-29 well (24 percent interest) produced an average of 46.5 mmcf per day of raw gas during 2001. This well continues to produce steadily at approximately 50 mmcf per day of raw gas. K-29 is capable of higher production rates, but is constrained by the facility's ability to handle water production. The water/gas ratio has increased from 13 bbls per mmcf at the beginning of 2001 to just over 30 bbls per mmcf in early 2002. The operator has completed the engineering and design for facility modifications required to handle additional water. Once this relatively low cost solution is approved and installed, the K-29 well rate can be increased based on the extra water handling capability. This facility modification is planned for August of 2002.


1
RAINBOW
2
TENAKA
3
UMBACH
3D SEISMIC
4
MINTON
YUKON TERRITORY
NORTHWEST TERRITORIES
FORT LIARD
MAXHAMISH
OOTLA
KIWIGANA
TENAKA
RAINBOW
SLAVE/UMBACH
STURGEON LAKE
EDSON/PINE CREEK
PECO
PIGEON LAKE
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
TURNER VALLEY
MINTON
LEGEND
GAS POOL
GAS WELL
POTENTIAL GAS

The M-25 well (24 percent interest) produced an average of 66.5 mmcf per day of raw gas during 2001. Recent 2002 production data has shown an increase in the water production from the M-25 well, which is consistent with expectations (using the K-29 well as a model) due to the open hole completion. Purcell expected M-25's gas rate to decrease and water to increase in 2002, which was reflected in projections of production and cash flow. Currently, the operator is production testing the well to determine the flowing characteristics needed for future facility modifications. During the second quarter of 2002, the M-25 production rate will be increased and the well is expected to produce at a final rate close to that seen at K-29 (which has produced formation water since shortly after commencing production in May 2000). Effective April 1, 2002, Gilbert Laustsen Jung Associates Ltd. completed an updated evaluation of the Fort Liard reserves to take into consideration the new production data for M-25 and no adjustments were made to the reserves.

The operator and partners are preparing a comprehensive reservoir development plan to be completed by June of this year. This plan will consider modifications to the facilities, the drilling of new wells and additional water-handling infrastructure to enable optimization of the recovery of the reserves. The present infrastructure (with some modifications) is capable of handling up to 180 mmcf per day of raw gas but is constrained by water handling bottlenecks at the K-29 and M-25 wellsites. Additional gas production from new wells can be handled using the existing wellsite facilities and pipeline. Consideration is being given to drilling a development well at Fort Liard in the second half of 2002.

MORE EXPLORATION OPPORTUNITY AT FORT LIARD

Purcell continues to pursue additional opportunities in the greater Fort Liard area. In 2001, an extensive evaluation of the region was completed, including shooting 160 kilometres of proprietary 2D seismic over numerous prospects, in order to identify new opportunities. Land sales are anticipated to take place by the end of 2002 or early in 2003.

ADDING TO THE PRODUCTION BASE

During 2001, Purcell added production in several areas in Alberta and Saskatchewan.

EDSON/PINE CREEK, ALBERTA

The Pine Creek well (75 percent interest before payout) drilled in early 2001 is producing at a stabilized rate of 1.3 mmcf per day of gas with liquids. The Company has acquired acreage on several prospects in this area. More wells are planned for the second and third quarters of 2002. The prospects typically have potential for two to four BCF of gas reserves with liquids. These wells have long-life reserves.

CROSSFIELD, ALBERTA

A horizontal well (50 percent interest) drilled in August 2001 is producing at 2.5 mmcf per day of gas. The Company is planning to add compression to maintain production at these rates.

RAINBOW, ALBERTA MAP 1

Development of this gas and oil project is underway. Five wells were drilled on this project in 2001 and early 2002. The Company has constructed a nine-mile gathering pipeline for sour gas and an oil battery will be completed in May. The wells will be tied in during the first half of 2002 with initial production expected to be 700 BOE/d net to Purcell starting in June, 2002. The Company is pursuing other opportunities in this core area.

MINTON, SASKATCHEWAN MAP 4

A 100 percent Purcell-owned well, drilled and put on production in December, 2001 is capable of generating from two zones up to 500 barrels per day of light quality crude. The well is currently producing over 300 bbls per day of light oil from the Winnipegosis.

The Company is seeking approval to produce both zones simultaneously. In April 2002 the property is projected to produce about 500 bbls per day of oil. Further development drilling of the property is planned for later this year, including the possible sidetracking of an existing wellbore to access incremental reserves and production. The Company has also purchased land on an exploratory prospect several miles northwest of the Minton pool for potential evaluation later in 2002.

MORE OPPORTUNITY THROUGH EXPLORATION

Since early 2001, Purcell has more than doubled its undeveloped land base to over 120,000 net acres (currently) including exploration projects at Pigeon Lake, Sturgeon Lake, Edson/Pine Creek, and Peco, in west Alberta, and at Umbach, Slave, Kiwigana, Tenaka, and Ootla in northeast B.C.

PIGEON LAKE, ALBERTA

Purcell has acquired a 100 percent-interest First Nations lease covering a Leduc reef seismic anomaly. Recently shot 2D seismic is being interpreted to refine the prospect. The play has potential for several million barrels of oil. A well is planned for June 2002.

STURGEON LAKE, ALBERTA

Re-interpretation of 3D seismic has identified a Leduc reef prospect with potential reserves of 500,000 barrels. Purcell will earn a 100 percent interest before payout in three sections of land (60 percent after payout) by drilling a well expected to spud in June 2002.

EDSON/PINE CREEK, ALBERTA

The Company has varying interests (40-50 percent) in 5,000 acres with multi-zone gas potential. Three wells are planned for drilling in the second half of 2002. Additional lands are being purchased in the area.

PECO, ALBERTA

A Purcell-operated (22.5 percent interest), 3,000 meter depth, underbalanced horizontal well will spud in early April 2002 on this gas play in west Alberta. Success will lead to drilling several follow-up locations on a land block covering eleven sections. This area has potential for significant long-life gas reserves.

UMBACH, BRITISH COLUMBIA

MAP 3

A $1.5 million 3D seismic data program is scheduled for completion in early April 2002 on this Slave Point gas play in northeast B.C. Purcell (50 percent interest) and its partner intend to drill a farmin well in July, 2002. Purcell has the ability to earn a 25 percent interest in up to 9,200 acres. The structure has potential for substantial gas reserves.

SLAVE, BRITISH COLUMBIA

The Company has an option to earn an interest in up to fourteen sections on this Slave Point gas play in northeast British Columbia. A $600,000 3D seismic program was conducted over the acreage this winter. The first well is slated for January 2003. Currently, Purcell has a right to participate at 100 percent interest until payout (50 percent interest after payout).

KIWIGANA, BRITISH COLUMBIA

Purcell (33 percent interest) has assembled approximately 29,000 gross acres on this shallow gas play in northeast B.C. Three wells licensed for drilling this winter were deferred by the operator. Drilling is expected in early 2003. Deeper gas potential also exists on this acreage.

OOTLA, BRITISH COLUMBIA

Completion of a weather-delayed 2D seismic program on this shallow gas play in northeast B.C. will allow for two play concepts to be tested in January, 2003. Seismic interpretation has identified prospects in the Cretaceous and Mississippian section. Purcell intends to test both plays next year by drilling up to four wells. The Company has an option to earn an interest in up to 26 sections of land.

TENAKA, BRITISH COLUMBIA

MAP 2

Over the past year, Purcell assembled a large block of land west of the Adsett (130 BCF) Slave Point gas pool in northeast B.C. The Company has an average 70 percent interest in approximately 28,000 acres. Interpretation of seismic data has identified several structures with potential reserves of 100 BCF of gas. Wells are planned for this project in early 2003.

DRILLING ACTIVITY

	2001		2000	
	Gross	**Net**	Gross	Net
Exploratory				
Gas	**6**	**1.62**	3	0.42
Oil	**2**	**2.00**	–	–
Dry	–	–	–	–
Development				
Gas	**8**	**1.85**	–	–
Oil	**3**	**3.00**	–	–
Dry	–	–	–	–
Total	**19**	**8.47**	3	0.42

MORE PARTNERSHIPS

BY TERRY L. LINDQUIST, CHIEF FINANCIAL OFFICER

The platform for growth extends beyond one world-class play and a list of early-stage prospects to include the bench strength needed to manage a larger base in an increasingly challenging environment. Purcell is better positioned than ever before with a more diversified and higher quality asset base, technical expertise and corporate controls to take the Company forward.

Purcell's financial performance in 2001 reflected improvements in almost every category, a credit to substantial additions to natural gas production. This achievement is especially notable considering the decline in commodity prices throughout the year. Purcell embarked on a major initiative to translate the cash flow generated by its world-class Fort Liard project into a more diversified base of high-quality exploration and development projects. Much of 2001's capital investment was directed at exploration activity, such as land and seismic data acquisition. The Company's limited drilling had a 100% success rate. The value from these successes, and the corresponding production and cash flow, will be more fully realized in the future.

For the purposes of calculating unit costs, natural gas is converted to a barrel equivalent ("BOE") using six thousand cubic feet equal to one barrel. BOE is a measure that provides an approximate comparison but can be misleading, particularly if used in isolation.

HIGHLIGHTS OF 2001

- Average production for 2001 of 4,604 BOE per day represented a 98 percent increase over the prior year; Q4 2001 production crossed the 5,000 BOE per day threshold averaging 5,111 BOE per day.
- Net revenue of $30.4 million in 2001 represented a 23 percent increase over $24.7 million in 2000.
- Cash flow of $20.7 million ($0.79 per share, diluted) achieved a new record and was 16 percent (13 percent on per share basis) higher than in 2000.
- Production increases were significant enough to generate revenue growth even though commodity prices dropped by 28 percent for natural gas, to $3.57 per mcf, and 23 percent for crude oil and liquids, to $29.02 per barrel.
- Long term debt of $20 million was utilized to support a highly active, $37 million capital program while maintaining a solid balance sheet with year-end debt at less than one time's forward cash flow.

RESULTS OF OPERATIONS

REVENUE: PRODUCTION INCREASES AND PRICING CHALLENGES

Net revenue of $30.4 million in 2001 was 23 percent higher than the $24.7 million recorded in 2000. The full year's increase counters the fourth quarter result that reflected a 39 percent drop in revenue to $7.4 million from $12.0 million for the fourth quarter of 2000 despite a 51 percent increase in equivalent production compared to the prior year period. The difference for the fourth quarter was a 62 percent lower realized natural gas price of $2.48 and a 43 percent lower price for crude oil at $21.01 per barrel, making the year-over-year comparison striking. Subsequent to the end of 2001, prices for both oil and gas recovered sharply, lending support to Purcell's strong production fundamentals.

The 2001 increase in revenue was due to higher natural gas production volumes. Natural gas production increased 128 percent, to 24.5 mmcf per day from 10.7 mmcf per day, which reflects the impact of all three Fort Liard wells on production. The M-25 well commenced production on November 1, 2000, resulting in its production ramped up and on stream for the full 12 months of 2001. The F-25A well was brought on stream June 25, 2001 and therefore contributed to production volumes for six months of the year. New gas production was also added at Pine Creek, Alberta. Fort Liard production continues to be the most significant contributor representing 77.7 percent of total production in 2001 and 72.2 percent of total revenue.

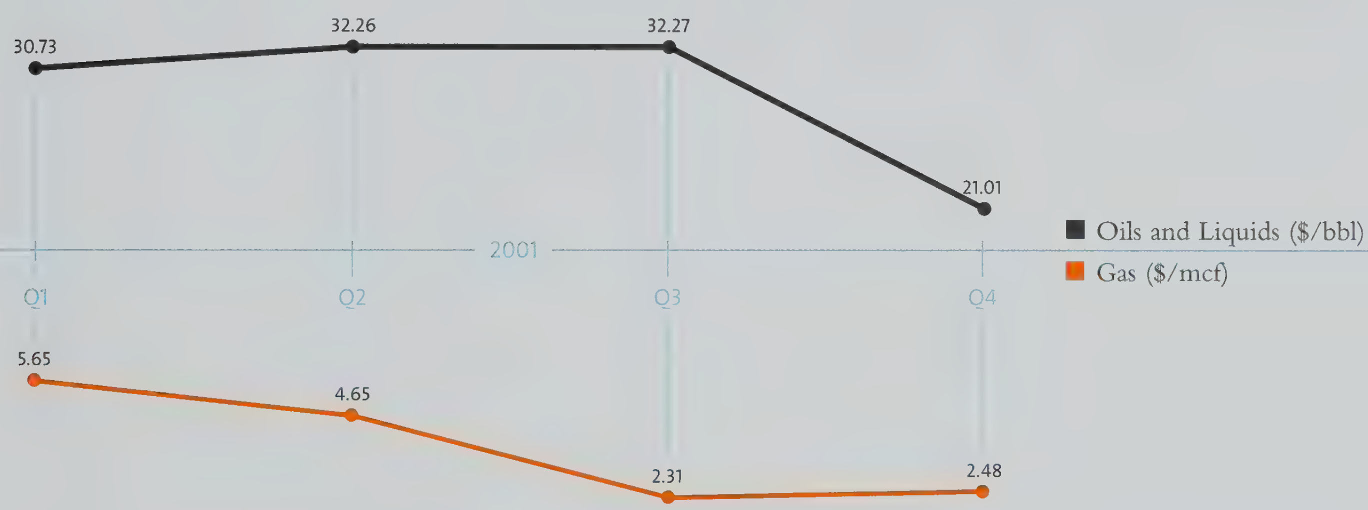
PRODUCTION BY AREA

		2001			2000		
		Natural gas (mmcf/d)	**Crude oil & liquids (bbls/d)**	**BOE/d**	Natural gas (mmcf/d)	Crude oil & liquids (bbls/d)	BOE/d
Northwest Territories	- Fort Liard	**21.47**	**–**	**3,577**	8.04	–	1,340
British Columbia		**0.10**	**1**	**19**	0.09	1	16
Alberta	- Ells/Birch Tar	**1.01**	**–**	**168**	1.03	–	172
	- Joarcam	**0.26**	**20**	**64**	0.24	30	70
	- Monitor	**0.71**	**4**	**122**	0.80	6	139
	- Wainwright	**0.09**	**114**	**128**	0.11	123	141
	- Pine Creek	**0.72**	**9**	**128**	–	–	–
	- Other	**0.10**	**19**	**37**	0.40	43	108
Total Alberta		**2.89**	**166**	**647**	2.58	202	630
Saskatchewan	- Minton	**–**	**202**	**202**	–	144	144
	- Rapdan	**–**	**63**	**63**	–	73	73
	- Weyburn/Tatagwa	**–**	**95**	**95**	–	111	111
	- Other	**–**	**1**	**1**	–	8	8
Total Saskatchewan		**–**	**361**	**361**	–	336	336
Total Purcell		**24.46**	**528**	**4604**	10.71	539	2,322

COMMODITY PRICES AND REVENUE

Both crude oil and natural gas prices were lower in 2001 compared to 2000 and the price trend, along with Purcell's hedging contracts, were a major contributor to the year's results. Crude oil prices were down 23 percent to $29.02 per barrel compared to $37.83 per barrel for 2000. Crude oil prices were above $30 per barrel through three quarters of 2001 and dropped to $21.01 for the fourth quarter. In contrast, natural gas prices spiked unusually high in the fourth quarter of 2000 and dropped consistently through each quarter of 2001.

2001 COMMODITY PRICES (WELL HEAD)



The extreme and unexpected natural gas spike upwards and then consistently downward through 2001 was an unusual profile for the commodity and was particularly challenging for a company with a new and substantial natural gas project coming on stream. Despite Purcell's diligent study of natural gas supply and demand trends, and its use of outside experts in natural gas markets, a hedging contract entered into and then restructured proved to be costly. The effect of the initial hedging was to limit Purcell's exposure to the sudden increase in natural gas prices that occurred in late 2000. In hindsight, when considering the entire length of the contract, Purcell would have received a reasonable price relative to the market. By restructuring the contract, Purcell paid a $5.0 million charge that was realized over the second, third and fourth quarters of 2001. On balance, the restructuring caused the Company's average gas price to be lower than the original contract price.

REVENUE IMPACT

($ thousands)	Crude oil	Natural gas	Total
2000 Revenue, before royalties	7,535	19,570	27,105
Increase (decrease) due to:			
Price	(1,629)	(17,688)	(19,317)
Volume	(24)	25,162	25,138
Acquisitions	402	–	402
Dispositions	(664)	(121)	(785)
2001 Revenue, before royalties	5,620	26,923	32,543

SALES BY PRODUCT (WELLHEAD)

($ thousands)	**2001**	2000
Crude oil and liquids	**5,593**	7,465
Natural gas	**31,879**	19,542
Total	**37,472**	27,007
Average price ($/BOE)	**22.29**	31.75

EXPENSES

Expenses were up in all categories reflecting Purcell's growth. While attention to cost efficiency continues to be an important consideration in all activities, the Company has added resources and implemented an expanded program as part of its mandate to effectively re-deploy cash flow from Fort Liard into new exploration and development projects that will increase and diversify the Company's production and reserves base. While costs will continue to increase in line with Purcell's growth, costs per unit of production should continue to decrease, reflecting economies of scale.

Royalty expenses for 2001 decreased by 49 percent to $1.48 per BOE from $2.93 per BOE in 2000 as a result of lower royalty rates in Alberta and Saskatchewan. In addition, a $115 thousand Alberta deep-gas royalty incentive in the fourth quarter of 2001 contributed to the 64 percent decrease in royalties to $290 thousand from the $815 thousand reported in the same quarter of 2000.

Crown royalty rates fluctuate with commodity prices resulting in reduced royalty rates applied in 2001 by the Alberta and Saskatchewan governments. Purcell also pays freehold royalties which account for $487 thousand of the total $2.5 million paid in 2001. As well, Purcell qualifies for Alberta Royalty Tax Credits (ARTC) that increased by 82 percent to $204 thousand in 2001 due to additional Alberta royalties paid on new wells drilled in 2001. With much of the Company's production generated in the Northwest Territories and in Saskatchewan, a smaller portion of the company's growing production is eligible for ARTC. Crown royalties charged on the Fort Liard gas production increased in October 2001 from one percent to two percent of adjusted revenue (sales reduced by processing and transportation charges). The Fort Liard royalties will increase to the greater of five percent of adjusted revenue and 30 percent of operating net income (adjusted revenue less operating expenses and less additional capital costs) once payout of the project costs is reached. With payout of the Fort Liard project expected in the first quarter of 2002, average corporate Crown royalties in 2002 will likely increase to around $2.90 per BOE.

ROYALTY EXPENSES BY PRODUCT

($ thousands)	2001	2000
Crude oil and liquids	**1,059**	1,492
Natural gas	**1,434**	1,001
	2,493	2,493
Average cost ($/BOE)	**1.48**	2.93
Percentage of revenue (%)	**7**	9

Production expenses increased 54 percent to $6.4 million from $4.1 million in 2000, however expenses were lower per unit, dropping to $3.80 per BOE from $4.88 per BOE in 2000. The reduction per unit was equally notable when comparing the fourth quarter of 2001 and 2000 with a 23 percent drop realized against only a 16 percent increase in the total production expenses. The decrease in per unit production expenses is directly attributable to the increased proportion of corporate production at Fort Liard. As the Company diversifies its production base into other core areas, production expenses per unit could very well increase from the current corporate average, as Fort Liard has relatively low production costs.

OPERATING EXPENSES

($/BOE)	2001	2000
Northwest Territories	**2.54**	2.77
British Columbia	**4.50**	9.28
Alberta	**6.61**	5.71
Saskatchewan	**11.28**	11.48
Corporate Average	**3.80**	4.88

General and administrative costs increased reflecting additional manpower to manage the larger asset base. G&A costs, before capitalization and recoveries, increased by 43 percent to $3.3 million while dropping 27 percent on a unit of production basis to $1.94 per BOE in 2001 from $2.66 per BOE. The increase in G&A is from adding employees as Purcell continues to leverage its production base into new growth opportunities. Purcell's growth program is largely dependent on full-cycle exploration with long lead times that result in staggered additions to production. This can lead to abrupt rather than gradual cost increases for infrastructure and systems that must be upgraded to prudently manage a larger and more sophisticated company. The extent of the Company's exploration and acquisition programs over the next 24 months will dictate the need for additions to technical and administrative staff.

Depletion and site restoration significantly increased to $10.2 million, up 115 per cent from $4.7 million in 2000, reflecting the larger producing asset base. The depletion rate of $6.08 per BOE represents a nine percent increase over the $5.59 per BOE rate for 2000 mirroring an increase in average finding and development costs in 2001.

Interest expense for the year was unchanged at $976 thousand reflecting higher average debt levels during the year offset by lower interest rates. Interest costs were reduced by the lower level of general interest rates in 2001 and the utilization of bankers' acceptances enabling the Company to borrow funds at close to the prime rate. The effect of the reduction in Purcell's effective borrowing rate is also reflected in fourth quarter interest costs that dropped by 12 percent to $286 thousand in 2001. Interest expense is expected to increase in 2002 with higher average debt and higher interest rates.

INCOME TAXES

Purcell is not currently taxable except for federal large corporation taxes and provincial capital taxes. Tax pools available to the Company are detailed in Note 8 to the consolidated financial statements. Assuming that Purcell spends its capital budget as planned, Purcell should remain non-taxable during 2002

NET INCOME AND CASH FLOW

Revenues increased by 23 percent in 2001 as a direct result of production additions and led to solid net income and cash flow for the year. Cash flow of $20.7 million was up 16 percent over $17.9 million in 2000. Net income was down 10 percent to $7.4 million in 2001 with the impact of depletion and amortization that more than doubled from the prior year. The effect of the substantially lower price environment in the fourth quarter of 2001 is evidenced by a 59 percent drop in cash flow and a 92 percent drop in net income compared to the same period in 2000 when prices were significantly more robust.

NETBACK ANALYSIS

($/BOE)	**2001**	2000
Revenue (1)	**19.44**	31.90
Royalty expenses	**1.36**	2.80
Production expenses	**3.80**	4.88
General and administrative expenses	**1.20**	1.74
Financing charges	**0.58**	1.14
Capital taxes	**0.17**	0.30
Cash flow from operations	**12.33**	21.04
Depletion and depreciation	**6.08**	5.59
Future income taxes	**1.84**	5.77
Net earnings	**4.41**	9.68

(1) Revenue is net of transportation costs.

Purcell's weighted average diluted shares outstanding of 26.2 million were two percent higher than the 25.7 million shares for 2000. Cash flow per share, diluted was $0.79 per share in 2001, up 13 percent from $0.70 per share in 2000. Net income per share, diluted, was $0.28 per share in 2001, down 12 percent from $0.32 per share in 2000.

QUARTERLY SUMMARY

($000, unless otherwise indicated)	Q4 2001	Q3 2001	Q2 2001	Q1 2001	Q4 2000	Q3 2000	Q2 2000	Q1 2000
Production								
Natural gas (mcf/d)	**29,960**	**28,270**	**21,410**	**21,086**	17,001	12,183	10,591	2,957
Crude oil & NGL (bbls/d)	**618**	**485**	**480**	**529**	557	498	513	588
BOE/d	**5,111**	**5,196**	**4,047**	**4,043**	3,390	2,528	2,278	1,081
Sales Prices (1)								
Natural gas ($/mcf)	**2.48**	**2.31**	**4.65**	**5.65**	6.47	4.33	3.95	2.82
Crude oil & NGL ($/bbl)	**21.01**	**32.77**	**32.26**	**30.73**	36.97	41.81	36.75	36.17
Revenue, net	**6,372**	**4,885**	**7,721**	**11,428**	11,312	6,122	5,068	2,248
Cash flow	**3,685**	**2,236**	**5,476**	**9,321**	8,966	4,408	3,344	1,172
Capital expenditures (2)	**10,565**	**9,057**	**8,830**	**11,313**	6,397	5,509	4,854	5,892
Bank debt, end of period	**20,000**	**19,346**	**14,762**	**11,356**	13,700	17,550	14,377	10,405
Share Trading								
High ($)	**3.79**	**4.23**	**5.12**	**4.68**	3.98	4.00	4.00	3.80
Low ($)	**2.70**	**2.74**	**3.70**	**3.35**	3.05	2.60	3.00	2.20
Close ($)	**3.30**	**2.85**	**3.95**	**4.59**	3.90	3.03	3.83	3.25
Volume (000s shares)	**2,484**	**3,702**	**4.976**	**6,082**	6,345	4,991	5,611	5,723

(1) Sales prices are net of transportation costs.

(2) Capital expenditures before dispositions.

LIQUIDITY AND CAPITAL RESOURCES

Purcell reached a new level in 2001 by having a much larger base of cash flow from which to fund a full-cycle exploration program. Over the past few years, as the Fort Liard project was successfully drilled, the challenge was to finance bringing that project on stream. With that successfully accomplished in 2000, Purcell was able to focus on the next phase of its development which would require successfully redeploying its Fort Liard cash flow to fund new growth areas.

The redeployment of $20.7 million in cash flow, supplemented with an additional $17 million of bank debt and new share capital, resulted in new production and reserves in British Columbia (Fireweed), Alberta (Crossfield, Pine Creek, and Rainbow) and Saskatchewan (Minton). These projects are developing into new core areas for the Company and, along with other project areas, offer significant diversification to the cash flow and reserves base.

All of these areas represent new projects at the beginning of their development. The Crossfield and Minton wells had just begun to produce by the end of 2001. The Rainbow area will commence producing towards the end of the second quarter of 2002 once surface facilities and a pipeline are completed. Several longer-term projects that were commenced in 2001 will not be on production until 2003. Reserves assigned to these projects are limited by the lack of production history. Purcell anticipates that its exploration success during 2001 will be better reflected in net present value and contribution to cash flow in 2002 and beyond. This trend of investing significant capital and realizing the value two and three years later is typical for a full-cycle exploration company such as Purcell.

CAPITAL PROGRAM

The 2001 capital program of $37.1 million was funded 55 percent by cash flow, 17 percent by issue of common shares and the remainder with bank debt and working capital. The program was directed to exploration and development activities, including land purchases and drilling, to establish new core areas that will diversify the Company's operating base. Purcell had anticipated spending $48 million in 2001 but that level of spending was reduced in response to weakening product prices through the year.

The success of the 2001 program is reflected in the doubling of the undeveloped land base to 116,134 net acres held at year-end and the 100 percent success in drilling 19 (8.5 net) wells. Both the Rainbow, Alberta and Minton, Saskatchewan area projects were substantial in 2001 requiring capital spending of $8.9 million and $4.4 million, respectively. The Rainbow project presented Purcell with technical complexity resulting in significant cost overruns. The Minton area projects included the drilling and completion of a 3,075 meter exploratory well. Both area projects will require additional capital investment in 2002 to further develop reserves and add production. Purcell has committed to approximately $11 million of additional capital expenditures in the Rainbow area in 2002.

The Fort Liard, Northwest Territories project area required $13.4 million in capital spending in 2001. $3.6 million was invested in geological exploration and $9.8 million was spent to bring the third well, the 60 percent owned F-25A discovery well, on stream and to fund the related processing facility. Purcell funded 94.6 percent of the facilities as a result of partners choosing not to participate in the plant's construction. As a result, Purcell receives processing fees on its partners' share of the F-25A production. The processing fees amounted to $370 thousand in 2001 and are expected to exceed $500 thousand in 2002.

Purcell will continue to advance its full-cycle exploration program by drilling its prospects and establishing land positions in new areas. Purcell is rapidly growing its play inventory with a 2002 capital budget of $32 million.

CAPITAL EXPENDITURES

($ millions)	**2001**	2000
Undeveloped land	**4.2**	1.0
Geological and geophysical	**6.9**	1.2
Drilling and completions	**18.5**	6.2
Dispositions, net	**(1.7)**	–
Facilities and gathering systems	**9.0**	13.6
Other	**0.2**	0.1
Total	**37.1**	22.1

UNDEVELOPED ACREAGE (acres, at December 31)	2001		2000	
	Gross	**Net**	Gross	Net
Alberta	**197,660**	**43,111**	198,155	28,895
Saskatchewan	**32,931**	**13,896**	32,383	11,715
British Columbia	**113,772**	**58,744**	21,650	11,853
Northwest Territories	**1,596**	**383**	1,596	383
Total	**345,959**	**116,134**	253,784	52,846

RESERVES AND ASSET VALUE

In June 2001, Gilbert Laustsen Jung Associates Ltd. (GLJ) conducted an evaluation of Purcell's reserves at Fort Liard resulting in the reassignment of a portion of the probable reserves to the proved category. At the end of 2001, an evaluation of the entire reserves base (except for a minor property that was sold in early 2002) was completed by GLJ, for the Fort Liard interests, and by Martin & Brusset Associates (Martin) for the remainder of the properties. Overall for 2001, proved reserves-added replaced 139 percent of production during the year with total proved and probable reserves-added replacing 83 percent of production.

The properties were evaluated on a reserve and economic forecast basis in accordance with the National Policy 2-B (Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators) definitions. The evaluators are qualified and experienced professional engineers and geologists and are independent of Purcell. The reserves evaluators rely on data generally available through public sources supplemented with data provided by Purcell which includes: land interest and lease descriptions, pertinent well data (such as well logs, drill stem tests, workover details, pressure surveys, production tests), geological mapping, property accounting statements, marketing arrangements, and operating and capital budget information. All properties were thoroughly reviewed by the evaluators.

Senior management oversees the review process by ensuring that the information provided to the evaluators is materially accurate and that the evaluators have not been restricted in any manner. The reserves report is provided to the Board and reviewed as part of the corporate governance process.

The more noteable changes to the reserves base were the reclassification of 6.2 bcf of probable reserves to proved at Fort Liard , the addition to proved and probable reserves of 0.5 mmbbls of crude oil at Minton, 1.0 mmboes at Rainbow and 1.1 bcf at Ells/Birch Tar. Reserves values at year end 2001 were affected by low commodity prices and by the fact that the majority of the new exploration areas are at an early phase of development with no reserves yet assigned. As a result, net asset value per diluted share at December 31, 2001 declined by 18% to $4.48 from $5.47 at December 31, 2000.

RESERVES RECONCILIATION

Total proved reserves	Light & Medium Crude oil (mbbls)	Heavy Crude oil (mbbls)	NGL (mbbls)	Natural gas (bcf)	Equivalent (mBOE)
December 31, 2000	622	1,006	9	51.8	10,270
Revisions of previous estimates	(89)	(115)	17	0.8	(49)
Purchases	70	–	–	–	70
Dispositions	(48)	–	–	(0.4)	(107)
Extensions, discoveries and improved recovery	398	–	24	12.0	2,422
Production	(123)	(65)	(5)	(8.9)	(1,680)
December 31, 2001	830	826	45	55.3	10,926
Total proved plus probable reserves					
December 31, 2000	871	1,354	11	89.1	17,086
Revisions of previous estimates	(153)	(95)	37	1.2	(5)
Purchases	85	–	–	–	85
Dispositions	(113)	–	–	(0.4)	(180)
Extensions, discoveries and improved recovery	958	–	35	3.0	1,498
Production	(123)	(65)	(5)	(8.9)	(1,680)
December 31, 2001	1,525	1,194	78	84.0	16,804

NET ASSET VALUE AT DECEMBER 31, BEFORE TAX

($ millions, except per share)	2001	2000
Proved and 50% probable reserves (disc. 10%)	**135.7**	154.5
Undeveloped acreage	**6.5**	2.5
Working capital (deficiency)	**(1.4)**	7.5
Seismic data	**5.2**	1.0
Long term debt and capital leases	**(20.0)**	(13.7)
Future site restoration liability, disc. 10%	**(1.5)**	(0.8)
Net asset value	**124.5**	151.0
Net asset value per share - basic	**4.70**	6.15
- diluted	**4.48**	5.47
Common shares outstanding - basic	**26,512,840**	24,569,440
- diluted	**29,215,540**	28,494,540

FINDING AND DEVELOPMENT COSTS (F&D)

Purcell's relatively high F&D costs for reserve additions in 2001 were caused by cost escalations in the service industry, drilling and completion challenges on the Rainbow project combined with modest reserves booked at the early development stage of the project, and additional capital spent on Fort Liard facilities. F&D costs for proved and probable reserve additions were greater than for just proved reserve additions in 2001 because of a net decrease in probable reserves compared to the prior year, primarily due to the reclassification of a portion of probable reserves to proved reserves for Fort Liard.

FINDING AND DEVELOPMENT COSTS

($ per BOE)	2001	Three Years Ended December 31, 2001
Excluding costs on undeveloped properties (1)		
Proved	**12.67**	8.11
Total proved and probable	**21.17**	6.76
All-in costs		
Proved	**17.70**	9.78
Total proved and probable	**29.58**	8.16

(1) Excluded costs aggregating $11.8 million for 2001 and $12.9 million for the three year period were for undeveloped exploration acreage, seismic data acquisition (including a large program over several prospects in the Fort Liard area), and costs paid by Purcell to construct facilities to process third-party gas at Fort Liard.

BANK CREDIT FACILITY

The Company's revolving term credit facility with a Canadian chartered bank was renegotiated raising the lending limit to $35 million from $16.5 million. The non-revolving term facility of $6.0 million was repaid and cancelled during 2001. At year end, $20 million of the revolving facility was utilized. The lending limit was increased as Fort Liard was brought on stream thus providing the Company with the flexibility to continue its growth and diversification program.

Management continues to strive to maintain conservative debt levels as evidenced by the debt to historical cash flow ratio of one-to-one. Maintaining a strong balance sheet will continue to be an objective for the Company.

CAPITAL STRUCTURE

($ thousands, at December 31)	2001	2000
Working capital (deficiency)	**(1,388)**	7,477
Long term debt	**20,000**	13,706
Accrued future site restoration liability	**1,098**	745
Shareholders' equity	**44,764**	38,670

Purcell shares trade on the Toronto Stock Exchange under the symbol PEL. During 2001, Purcell had a record 17.2 million shares trade during the year, between a range of $2.70 and $5.12 per share. Purcell issued 1.6 million flow-through shares on December 20, 2001 for total consideration of $6.48 million based on a per share price of $4.05. In addition 800 thousand regular common shares were issued at $3.30 per share for total consideration of $2.64 million.

A normal course issuer bid was commenced in June 2001 and resulted in the repurchase and cancellation of 2.2 million shares at a cash cost of $7.8 million. At the end of 2001, Purcell had 26.5 million shares and 2.7 million employee and director options outstanding.

BUSINESS RISKS

Purcell faces the same business risks as any participant in the energy industry. Ownership of common shares should be considered speculative. Exploration for oil and natural gas involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered by Purcell.

Purcell's asset value is based on the assessment of its oil and gas reserves that are third-party reviewed by Gilbert Laustsen Jung Ltd. (GLJ) for Fort Liard and by Martin & Brusset Associates (Martin) for the remainder of the asset base. The reserves reports, prepared effective December 31, 2001 by GLJ and Martin, represents an estimate of Purcell's interest in its reserves and the future net production revenue derived there from. It is important to note that reserves reports include assumptions about the productive capability of each reservoir and each well into those reservoirs. Being estimates, each well and reservoir could perform differently than estimated, significantly altering the net production revenue ultimately realized.

Commodity price volatility is a significant factor that affects the success of the Company. Purcell is subject to price fluctuations that it has hedged, from time to time, by entering into forward sales contracts. This approach assures a level of capital available for reinvestment but does not ensure that Purcell will necessarily receive the highest possible price available. Purcell has not entered into forward sales contracts for its natural gas or crude oil for 2002 other than a three-year old forward sale contract expiring on November 1, 2002 for 2,000 GJ of natural gas at $2.41 per GJ. A significant portion of Purcell's natural gas production generates revenue in U.S. dollars. The Company is therefore subject to foreign exchange risk based on the difference between the U.S. and Canadian dollars.

Capital availability is another area of risk. Capital sources used by Purcell in order to realize growth include cash flow, bank lines of credit and equity markets. The risks to cash flow levels stem from production volumes generated by Purcell and the commodity prices prevailing in the market, bank relationships and, in turn, economic conditions, determine the level of credit extended to the Company and economic conditions and investor confidence influence the availability of equity financing.

Increasing competition in western Canada is adding to the cost of doing business and therefore, increasing the financial risk. Competition also extends to the availability of qualified, professional staff. As for any business, Purcell's continued success is dependent upon its ability to attract and retain experienced management. These areas of competition are not any different than for any other active exploration and development company.

Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. Purcell expects it will be able to fully comply with all regulatory requirements.

The political and economic risks of working in Canada are perhaps as reasonable as anywhere in the world. Canada may suffer in conjunction with any economic slowdown in the U.S. however, this issue is not considered to be significant for the energy sector in Canada as the North American economy appears to be moving into a recovery.

Crude oil prices are dependent on the world economy and international political stability. The current crisis in the Middle East and the uncertainty of terrorist activities could add significant volatility to crude oil prices over the next year.

OUTLOOK

Purcell withstood the pressures of low commodity prices during 2001 by managing its capital spending and continuing to add production. The outlook for 2002 is to invest $32 million that is in line with anticipated cash flow for the year and unutilized credit on banking facilities. The cash flow expectation is based on production averaging 6,000 BOE per day, a 30 percent increase over 2001 and realized Canadian prices of $3.50 per mcf of natural gas and $25 per barrel for crude oil and liquids. The price estimates take into account Purcell's production quality and geographic location. With only a very minor part of production forward-sold into contracts, the price forecast is an estimate of average market prices. Production growth is expected to come from Fort Liard, with its first full year of production from all three Purcell wells, and production additions resulting from successful 2001 exploration drilling. Only modest, risked assumptions have been made for new exploration success despite the intention of drilling between 15 and 20 new gross wells in 2002.

Purcell expects Fort Liard will be a smaller portion of total production as new core areas take shape. Purcell's long term objective is to continue to invest in all stages of the exploration cycle, maintaining between five and ten core areas that offer both exploration and development potential, and having a base of production and reserves diversified among the core areas. To support this growth, Purcell will add expertise to the Company when and as needed to ensure new ideas are generated and that the operating and asset base of the Company is appropriately managed.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody LLP, the external auditors, conduct an independent examination of the financial statements in

accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the financial statements including notes thereto, with management and BDO Dunwoody LLP. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

Jan M. Alston
President & CEO

March 21, 2001

Terry L. Lindquist
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
PURCELL ENERGY LTD.

We have audited the consolidated balance sheets of Purcell Energy Ltd. as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody

Chartered Accountants
Calgary, Alberta

March 4, 2002

CONSOLIDATED BALANCE SHEETS

As at December 31

	2001	2000
ASSETS		
Current		
Cash	**$ 563**	$ 6,248
Accounts receivable (Notes 3 and 7)	**4,479,111**	7,460,180
Marketable securities	**–**	93,594
Prepaid expenses and deposits	**435,426**	5,169,087
Inventory	**141,686**	187,089
	5,056,786	12,916,198
Property, plant and equipment (Note 4)	**78,073,419**	50,847,114
	$ 83,130,205	$ 63,763,312
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 6,439,622**	$ 5,305,843
Corporate taxes payable	**95**	54,393
Current portion of obligations under capital leases (Note 5)	**5,462**	79,287
	6,445,179	5,439,523
Long term debt (Note 6)	**20,000,484**	13,700,428
Obligations under capital leases (Note 5)	**–**	5,462
Provision for future site restoration costs	**1,098,000**	745,000
Future income taxes	**10,822,215**	5,202,526
	38,365,878	25,092,939
SHAREHOLDERS' EQUITY		
Equity instruments (Note 7)		
Common shares, net	**40,172,852**	30,506,893
Special warrants	**–**	6,042,175
Preferred shares	**128,000**	128,000
	40,300,852	36,677,068
Retained earnings	**4,463,475**	1,993,305
	44,764,327	38,670,373
	$ 83,130,205	$ 63,763,312

The accompanying notes are an integral part of these financial statements.

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended December 31

	2001	2000
Revenue		
Revenues (Note 13)	**$ 30,253,587**	$ 24,723,963
Interest and other income	**152,311**	26,424
	30,405,898	24,750,387
Expenses		
Production	**6,392,797**	4,145,886
Depletion, amortization and site restoration	**10,220,000**	4,755,000
General and administrative, net	**2,024,126**	1,478,157
Interest on long term debt	**976,322**	977,293
	19,613,245	11,356,336
Income before corporate taxes	**10,792,653**	13,394,051
Corporate taxes (Note 8)		
Capital taxes	**292,442**	259,394
Future income taxes	**3,086,533**	4,908,819
	3,378,975	5,168,213
Net income for the year	**7,413,678**	8,225,838
Retained earnings (deficit), beginning of year		
As previously reported	**1,993,305**	(2,483,729)
Adjustment for change in accounting policy (Note 11)	**–**	470,888
As restated	**1,993,305**	(2,012,841)
Purchase price of common shares repurchased in excess of book value (Note 7)	**(4,943,508)**	(4,219,692)
Retained earnings, end of year	**$ 4,463,475**	$ 1,993,305
Earnings per common share – basic	**$ 0.294**	$ 0.335
– diluted	**$ 0.282**	$ 0.320

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASHFLOWS

For the years ended December 31

	2001	2000
Cash flows from operating activities		
Net income for the year	$ 7,413,678	$ 8,225,838
Adjust for non-cash items:		
Gain of sale of marketable securities	(2,872)	–
Future income taxes	3,086,533	4,908,819
Depletion, amortization and site restoration	10,220,000	4,755,000
Cash flow from operations	20,717,339	17,889,657
Changes in non-cash working capital balances		
Accounts receivable	2,726,734	(4,698,110)
Prepaid expenses and deposits	4,733,661	(5,032,528)
Inventory	45,403	(69,765)
Accounts payable and accrued liabilities	(2,047,511)	384,147
Corporate taxes payable	(54,298)	(66,836)
	26,121,328	8,406,565
Cash flows from financing activities		
Payments from (to) Liard Resources Ltd.	6,862	(99,053)
Decrease in share purchase loans	73,250	–
Issue of common shares, net of related expenses	8,931,068	3,732,665
Repurchase of common shares	(7,815,836)	(7,151,416)
Issue of special warrants, net of related expenses	(65,050)	5,894,991
Repayment of capital leases	(79,287)	(215,756)
Increase in utilization of bank credit facilities	6,300,056	10,989,434
	7,351,063	13,150,865
Cash flows from investing activities		
Changes in non-cash working capital balances		
Accounts receivable	337,473	(402,521)
Accounts payable	3,181,290	1,032,532
Proceeds on disposition of marketable securities	118,699	–
Purchase of marketable securities	(22,233)	(93,594)
Purchases of property, plant and equipment	(39,764,985)	(22,651,319)
Proceeds on disposition of property, plant and equipment	2,671,680	547,500
	(33,478,076)	(21,567,402)
Decrease in cash	(5,685)	(9,972)
Cash, beginning of year	6,248	16,220
Cash, end of year	$ 563	$ 6,248
Cash flow from operations per share – basic	$ 0.821	$ 0.730
– diluted	$ 0.789	$ 0.697

The accompanying notes are an integral part of these financial statements.

01 NATURE OF OPERATIONS

The Company was incorporated on December 5, 1986 pursuant to the Alberta Business Corporation Act. Since inception, the Company's efforts have been devoted to the acquisition, exploration and development of oil and gas properties.

02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include the accounts of Purcell Energy Ltd. (the "Company") and its wholly-owned subsidiaries 421416 Alberta Ltd., 641294 Alberta Ltd. and 757382 Alberta Ltd. and the Company's proportionate interest in the accounts of Northcor Exploration Fund 1988 and Western Exploration Fund 1988.

(b) Inventories and revenue

Revenue is recognized on production and inventories of petroleum products are valued at the lower of cost and net realizable value. Inventories of operating supplies and raw materials are also valued at the lower of cost and net realizable value.

(c) Prepaid expenses and deposits

Prepaid expenses and deposits include deposits on forward sales contracts and deposits to secure pipeline space to deliver gas in future periods.

(d) Property, plant and equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted on the unit-of-production method based on the estimated gross proved reserves. Petroleum products and reserves are converted to equivalent units of natural gas at approximately 6,000 cubic feet to 1 barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion. Alberta Royalty Tax Credits are included in oil and gas sales.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the year and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes.

(e) Joint venture operations

The majority of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(f) Environmental and site restoration costs

A provision for environmental and site restoration costs is made when restoration requirements are established and costs can be reasonably estimated. The balance of future salvage value of assets is netted against future site restoration accrual. The site restoration costs are accrued on the basis of actual production. The accrual is based on management's best estimate of these future costs on the ratio of actual production to proved producing reserves.

(g) Marketable securities

Marketable securities are carried at the lower of cost and market.

(h) Flow-through equity instruments

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share/warrants arrangements are renounced to investors in accordance with income tax legislation. The company provides for the future effect on income taxes related to flow-through shares as a charge to share capital when the expenditures are incurred. No liability regarding future taxes is recorded on unexpended flow-through share capital.

(i) Financial instruments

The Company carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company periodically utilizes custom financial instruments to reduce its exposure to fluctuations in commodity prices. Such instruments are not used for trading purposes. Gains and losses on commodity price instruments are included in oil and gas sales on settlement.

(j) Measurement uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and reclamation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

Accounts payable and accrued liabilities have been reduced by approximately $1.2 million for royalty payments due on certain properties. This reduction is based on management's estimate of when payout was achieved. The amended return is being reviewed by the relevant authorities. The effect on the financial statements resulting in any adjustments required to the calculation submitted, if any, will be accounted for prospectively.

(k) Future income taxes

Effective January 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The new method was applied retroactively without restatement of the prior years. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. Previously, the Company followed the deferral method.

(l) Stock based compensation plan

The Company has a stock-based compensation plan as per Note 7. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled will be charged to retained earnings.

(m) Per share amounts

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

(n) Employee benefit plans

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The cost of employee pensions and other retirement benefits is actuarially determined using the aggregate actuarial cost method based on actuarial liability for projected benefits earned in respect of all service to the members' assumed retirement date. The expected return on plan assets is based on the fair value of those assets. The excess of any net actuarial gain or loss exceeding 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over estimated average remaining service life ("EARSL").

03 SHARE PURCHASE LOANS

Included in accounts receivable are loans of $182,500 (2000 - $92,500) due from directors and employees of the Company who are key members of the Company's management team. These loans were made for market purchases of stock of the Company. The loans are unsecured and bear interest at prime payable monthly. The employee loans are due on December 31, 2002.

04 PROPERTY, PLANT AND EQUIPMENT

	2001	2000
Cost		
Oil and gas properties		
Exploration, development and related equipment expenditures	**$ 92,147,932**	$ 55,053,736
Property costs, net of dispositions	**13,720,837**	13,889,337
	105,868,769	68,943,073
Furniture and equipment	**589,294**	421,685
Total cost	**106,458,063**	69,364,758
Less: Accumulated amortization and depletion	**(28,384,644)**	(18,517,644)
Net book value	**$ 78,073,419**	$ 50,847,114

During the year, approximately $702,000 (2000 - $520,000) of general and administrative costs were capitalized to oil and gas properties. As at December 31, 2001, costs of acquiring unproved properties in the amount of $12,500,000 (2000 - $2,500,000) were excluded from depletion calculations.

Included under property, plant and equipment are assets under capital lease at original cost of $42,876 (2000 - $758,662) less accumulated amortization of $10,352 (2000 - $205,013).

05 OBLIGATIONS UNDER CAPITAL LI

The Company has several agreements to lease oil and gas production equipment under a $750,000 credit facility with a Canadian chartered bank. These leases have implicit rates of interest varying from 5.28% to 5.66%. The following is a schedule of the aggregate future minimum lease payments under the terms of the leases:

	2001	2000
2001	**$ –**	81,917
2002	**5,508**	5,508
Total minimum lease payments	**5,508**	87,425
Less deferred financing charges	**(46)**	(2,676)
Obligations under capital leases	**5,462**	84,749
Less current portion	**(5,462)**	(79,287)
	$ –	$ 5,462

06 LONG TERM DEBT

	2001	2000
Bank operating loan	**$ 2,585,000**	$ 6,520,000
Bank overdraft	**2,415,484**	1,180,428
Bank non-revolving facility	**–**	6,000,000
Banker's acceptances	**15,000,000**	–
	$ 20,000,484	$ 13,700,428

During the year, the Company secured a new revolving credit facility of $35 million (2000 - $16.5 million) with a Canadian chartered bank. Interest is charged at the bank's prime rate plus $\frac{1}{4}$% per annum on the bank-operating loan while the rate on the

banker's acceptances approximates the prime rate. The facility is supported by a general security agreement and a hypothecation of a fixed and floating charge debenture in the amount of $50 million (2000 - $50 million) supported by oil and gas properties. The facility will be reviewed prior to May 31, 2002 and if not renewed, shall be converted to a term facility with a term not exceeding 5 years. It is the Company's belief that this facility will be renewed.

07 EQUITY INSTRUMENTS

Authorized

The authorized share capital of the Company consists of an unlimited number of:

Common voting shares;
Preferred non-voting shares issuable in series, rights to be determined on issue; and
Series I convertible preferred shares.

The common shares are entitled to dividends in such amounts as the directors may from time to time declare and, in the event of liquidation, dissolution or winding-up of the Company, are entitled to share pro rata in the assets of the Company.

The preferred shares rank in priority to the common shares as to the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. Preferred shares may also be given such other preferences over the common shares as may be determined for any series authorized to be issued.

Issued

Common shares	**2001**		2000	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**24,569,440**	**$ 30,670,143**	24,796,540	$ 29,175,340
Issued in exchange for cash by private placements (net of share issue costs of $514,582 and future tax savings of $214,169)	**2,400,000**	**8,819,587**	–	–
Issued on exercise of options	**243,400**	**325,650**	772,900	797,695
Issued on exercise of share purchase warrants	**1,500,000**	**3,229,800**	1,000,000	3,100,000
Repurchase of shares under normal course issuer bid (2000 net of future taxes of $794)	**(2,200,000)**	**(2,872,328)**	(2,000,000)	(2,402,892)
Balance, before share purchase loans	**26,512,840**	**40,172,852**	24,569,440	30,670,143
Share purchase loans (Note 3)	–	–	–	(163,250)
Balance, end of year	**26,512,840**	**$ 40,172,852**	24,569,440	$ 30,506,893

During 2001, the Company paid a 5% commission on the gross proceeds of the private placement. Liard Resources Ltd. ("Liard") purchased 500,000 shares out of the total 2,400,000 shares issued in the private placement. Liard is related by virtue of having common management. In addition, the Company also repurchased 2,200,000 of its common shares at a purchase cost of $7,815,836 resulting in a $4,943,508 reduction in retained earnings.

During 2000, the Company repurchased 2,000,000 of its common shares at a purchase cost of $7,153,196 resulting in a $529,818 reduction in contributed surplus and a $4,219,692 decrease in retained earnings.

On December 20, 2001, the Company completed private placements for an aggregate of 1,600,000 flow through shares at a price of $4.05 per share and 800,000 common shares at a price of $3.30 per share for gross proceeds of $9,120,000.

The legal stated common share capital of the Company under the Business Corporations Act is $2,615,993 (2000 - $4,263,888) in excess of the amount carried in the accounts of the Company. The weighted average number of shares outstanding for 2001 was 25,229,690 (2000 - 24,509,760).

Special share purchase warrant	2001		2000	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**1,500,000**	**$ 6,042,175**	–	$ –
Share purchase warrants				
Issued in the year	–	–	1,500,000	6,225,000
Less future taxes on renounced exploration expenses	–	**(2,776,350)**	–	–
Less issue costs (net of future taxes of $29,025 (2000 - $147,184))	–	**(36,025)**	–	(182,825)
	1,500,000	**3,229,800**	1,500,000	6,042,175
Share purchase warrants exchanged for common shares	**1,500,000**	**3,229,800**	–	–
Balance, end of year	–	**$ –**	1,500,000	$ 6,042,175

On November 21, 2000 the Company completed private placements for an aggregate of 1,500,000 flow-through special warrants at a price of $4.15 for each special warrant for gross proceeds of $6,225,000. One special warrant was exchangeable for one common share at no additional cost. All special warrants were exchanged for common shares on March 28, 2001.

	2001		2000	
Preferred shares	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**2,276**	**$ 128,000**	2,276	$ 128,000
Balance, end of year	**2,276**	**$ 128,000**	2,276	$ 128,000

The preferred shares earn cumulative dividends at 5% and were convertible into 76,815 Common shares on or before December 31, 1997 at the option of the holder. No preferred shares were converted prior to December 31, 1997 so the conversion privilege has expired. The preferred shares are redeemable at $56.25 per share. Preferred shares dividends in arrears as at December 31, 2001 amounted to $41,165 (2000 - $34,765).

	2001	2000
Contributed surplus		
Balance, beginning of year	**$ –**	$ 529,818
Repurchase of shares pursuant to normal course issuer bid	–	(529,818)
Balance, end of year	**$ –**	$ –

The Company has a stock option plan under which employees, directors and consultants are eligible to receive grants. On December 31, 2001, 4,000,000 (2000 – 4,000,000) common shares were reserved for issuance under the plan. Options granted under the plan generally have a term of five years to expiry and vest equally over a three-year period starting on the first anniversary date of the grant. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of the grant. At December 31, 2001, 2,702,700 options with exercise prices between $0.70 and $3.80 were outstanding and exercisable at various dates to the year 2006.

	2001		2000	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Stock options, beginning of year	**2,425,100**	**$ 2.03**	2,581,000	$ 1.42
Granted	**583,000**	**3.20**	617,000	3.35
Exercised	**(243,400)**	**1.34**	(772,900)	1.03
Cancelled	**(62,000)**	**3.36**	–	–
Stock options outstanding, end of year	**2,702,700**	**$ 2.31**	2,425,100	$ 2.03
Exercisable, end of year	**1,581,798**	**$ 1.78**	1,308,871	$ 1.29

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
Under $1.00	517,000	1.6	$ 0.72	483,666	$ 0.72
$1.00 - $1.99	412,000	0.5	1.12	412,000	1.12
$2.00 - $2.99	660,700	2.9	2.69	440,466	2.69
$3.00 and over	1,113,000	4.4	3.27	245,666	3.36
	2,702,700	2.9	$ 2.31	1,581,798	$ 1.78

08

The effective rate of income tax varies from the statutory rate as follows:

	2001	2000
Combined tax rate	**41.62%**	44.6%
Expected income tax provision at statutory rate	**$ 4,489,744**	$ 5,973,747
Differences due to resource deductions	**(1,763,995)**	(1,098,322)
Other differences	**360,784**	33,394
Provision for large corporations and provincial capital taxes	**292,442**	259,394
Actual income tax provision	**$ 3,378,975**	$ 5,168,213

Subject to confirmation by income tax authorities, the Company has the following approximate undeducted tax pools:

	2001	2000
Cumulative Canadian Oil and Gas Property Expenses*	**$ 6,672,000**	$ 3,592,000
Cumulative Canadian Development Expenses*	**$ 6,516,000**	$ 2,577,000
Cumulative Canadian Exploration Expenses*	**$ 10,214,000**	$ 1,717,000
Undepreciated Capital cost	**$ 23,681,000**	$ 18,741,000
Non-capital losses carried forward for tax purposes available from time to time until 2006**	**$ 3,471,000**	$ 11,024,000
Share issue costs	**$ 935,000**	$ 787,000
Net capital losses carried forward	**$ 57,000**	$ 60,000

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

* *Certain tax pools acquired are successored and can only be used against income generated from certain properties.*

** *The Canada Customs and Revenue Agency has reassessed, denying certain capital losses of the Company in a prior year of approximately $1,000,000. The Company has filed a notice of objection and believes its position will prevail.*

The components of the Company's future income tax liabilities are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	**2001**	2000
Capital assets	**$ 12,648,081**	$ 10,469,962
Share issue costs	**(389,006)**	(350,836)
Unused tax losses carryforward	**(1,436,860)**	(4,916,600)
Future income tax liability	**$ 10,822,215**	$ 5,202,526

09 RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001, the Company:
(a) charged $26,137 of interest to Liard Resources Ltd. ("Liard")
(b) received net loan payments of $6,862 from Liard; and
(c) charged $7,595 of interest on loans to employees and directors as detailed in Note 3.

During the year ended December 31, 2000, the Company:
(a) charged $19,702 of interest to Liard Resources Ltd. ("Liard");
(b) paid net loan payments of $99,053 to Liard; and
(c) charged $6,690 of interest on loans to employees as detailed in Note 3.

Liard is a shareholder of the Company and is related by virtue of having common management. Included in accounts receivable is an amount due from Liard of $266,401 (2000 - $273,263). The balance earned interest at prime plus 1% per annum from January 1, 1998 to December 31, 2001.

10 [illegible]

(a) Office lease

The Company is committed to a lease agreement for office space expiring November 30, 2004. In addition to operating costs, the lease requires annual minimum lease payments as follows:

2002	$ 172,846
2003	187,418
2004	171,800

(b) Natural gas

The Company has entered into a contract to deliver natural gas. The terms of the contract are summarized as follows:

Commencement date	Expiry date	Maximum daily contract quantity	Fixed price per unit before delivery expenses
Delivery contracts			
November 1, 1999	November 1, 2002	2,000 GJ	$2.41

(c) Employment contracts

The Company has employment agreements in place where certain members of the management team will receive between 1 to 2 years salary for severance upon termination without cause. The current total commitment on termination is estimated to be approximately $1,115,000.

11 CHANGES IN ACCOUNTING POLICIES

(a) Future income taxes

Effective January 1, 2000 the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants on a retroactive basis. The Company has adopted the accounting policy without restatement of the prior years results. The impact of these changes on the December 31, 2000 financial statements was as follows:

Increase (decrease):		
Opening deficit	$	(470,888)
Capital assets		841,940
Future income tax liabilities		5,202,526
Common shares		794
Special warrant		148,184
Future income tax expense		4,908,819
Net income		(4,908,819)

Prior to 2000, the Company had used the deferral method of income tax allocation. Under this method, the income tax provision is based on accounting income computed at current tax rates without subsequent adjustments to reflect changes in income tax rates.

(b) Per share amounts

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. In the fourth quarter of fiscal 2000, the Company retroactively adopted the new standard. Under the new standard the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

In computing diluted earnings and cash flow from operations per share 1,017,879 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2001 (2000 - 1,146,515) for the dilutive effect of stock options. Reported earnings and cash flow from operations were reduced by undeclared preferred dividends in the amount of $6,400 (2000 - $6,400) in computing diluted per share amounts.

Prior period diluted earnings per share and cash flow from operations per share has been restated retroactively for this change. If the imputed earnings method had been used to calculate these amounts, the reported amounts would have been:

		2001		2000
Diluted earnings per common share	**$**	**0.274**	$	0.307
Diluted cash flow from operations per common share	**$**	**0.750**	$	0.642

12 FINANCIAL INSTRUMENTS

As disclosed in Note 2(i), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, commodity price and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk management

The Company's short and long-term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at December 31, 2001, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $200,000 (2000 - $137,000) per annum. The related disclosure regarding these debt instruments is included in Note 6 of these financial statements.

(b) Commodity price risk

The Company is subject to commodity price risk for the delivery of natural gas and crude oil under the contracts detailed in Note 10(b). The Company managed the risk by delivering natural gas and crude oil received in kind on behalf of the Company and several sub-participants from the operations of various joint ventures. The sub-participants are not involved in the contracts; however, the Company pays the sub-participants for their share of gas/oil sold at the prices received by the Company. The obligations to deliver under the contracts are the sole responsibility of the Company.

(c) Credit risk

A significant portion of the Company's trade accounts receivable are from working interest partners in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry.

13 REVENUES

Revenues is comprised of the following:

	2001	2000
Petroleum and natural gas sales	**$ 37,471,511**	$ 27,006,702
Loss on restructuring natural gas sales contracts (Note 13(a))	**(5,000,000)**	–
Royalty revenue	**71,893**	98,519
Royalty expense	**(2,493,539)**	(2,493,260)
Alberta royalty tax credit	**203,722**	112,002
	$ 30,253,587	$ 24,723,963

(a) During 2001 the Company expensed costs that were incurred pursuant to the cancellation of certain forward natural gas sales contracts. The costs were amortized against revenue over the original contract period of April 1, 2001 to November 1, 2001.

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	December 31, 2001	December 31, 2000
Interest paid	**$ 1,083,148**	$ 1,018,442
Corporate taxes paid	**$ 339,081**	$ 326,230

Share purchase loans

During 2000, shares were issued to certain employees upon exercise of options in exchange for notes receivable in the amount of $163,250 (Note 3).

15 EMPLOYEE BENEFITS

Effective July 1, 2001 the Company initiated a strategy for the long-term retention of senior executives by the establishment of a Retirement Compensation Arrangement (RCA) plan governed by a trust agreement. The approximate amount of the future annual benefits is covered by insurance contracts. The Company funds the RCA fully with payments that are based on actuarial calculations.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension benefit plans
Accrued benefit obligation	
Balance at January 1, 2001	$ –
Current service costs	146,450
Interest cost	2,241
Actuarial gains	(2,241)
Balance at December 31, 2001	146,450
Plan assets	
Fair value at January 1, 2001	–
Accrual return on plan assets	–
Employer contribution	212,150
Fair value at December 31, 2001	212,150
Funded status – plan surplus (unrecorded in records)	$ 65,700

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows:

	Pension benefit plans
Discount rate	6.0%
Expected long-term rate of return on plan assets	6.0%
Rate of compensation increase	0.0%

The Company's net benefit plan expense is as follows:

	Pension benefit plans
Current service cost – actuarial accrual liability	$ 74,700
Mortality cost portion of insurance premiums	71,750
Interest cost	2,241
Expected return on plan assets	(2,241)
	$ 146,450

FIVE YEAR SUMMARY

Years ended December 31

	2001	2000	1999	1998	1997
Revenues	**$ 30,405,898**	$ 24,750,387	$ 6,137,650	$ 5,577,884	$ 5,670,633
Cash flow	**20,717,339**	17,889,657	2,015,013	1,886,283	2,695,805
Per share - basic	**0.821**	0.730	0.088	0.096	0.192
- diluted	**0.789**	0.697	0.084	0.093	0.178
Net income (loss)	**7,413,678**	8,225,838	247,013	(2,545,249)	221,147
Per share - basic	**0.294**	0.335	0.011	(0.130)	0.015
- diluted	**0.282**	0.320	0.010	(0.110)	0.020
Working capital (deficiency)	**(1,388,393)**	7,476,675	(1,695,550)	244,701	(1,680,921)
Long-term debt	**20,000,484**	13,705,890	2,795,743	5,464,524	1,032,500
Capital expenditures, net	**37,093,305**	22,103,819	6,637,469	5,504,255	18,109,779
Capital assets	**78,073,419**	50,847,114	32,393,722	27,423,253	26,696,508
Common shares outstanding	**26,512,840**	24,569,440	24,796,540	22,207,540	14,022,540
Shareholders' equity	**$ 44,764,327**	$ 38,670,373	$ 27,349,429	$ 21,751,430	$ 23,713,619

RESERVES					
Proved and probable at 10% discount ($000)	**$ 159,661**	$ 178,521	$ 102,145	$ 63,736	$ 44,979
Oil and liquids (mbbls)	**2,797**	2,236	2,519	1,420	3,502
Gas (bcf)	**84.0**	89.1	93.5	55	37
PRODUCTION					
Gas (mmcf/d)	**24.46**	10.71	3.68	4.87	4.04
Oil and liquids (bbls/d)	**528**	539	584	479	456
BOE/d	**4,604**	2,322	1,197	1,291	1,129
LAND HOLDINGS					
Net acres (undeveloped)	**116,134**	52,846	39,363	55,911	56,893
DRILLING (GROSS WELLS)					
Gas	**14**	3	2	6	14
Oil	**5**	–	2	5	12
Dry and abandoned	**–**	–	–	2	8
Total	**19**	3	4	13	34
DRILLING (NET WELLS)					
Gas	**3.47**	0.42	0.48	0.72	6
Oil	**5.00**	–	0.60	1.82	9
Dry and abandoned	**–**	–	–	.24	4.9
Total	**8.47**	0.42	1.08	2.78	19.9

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jan M. Alston, B.A., LL.B.(1)
President & Chief Executive Officer
Purcell Energy Ltd.

Bernard A. Benning, MEd., MBA, CMA(2)
Vice President, College Services,
Bow Valley College

Bruce J. Murray, B.Comm.
Chief Operating Officer
Purcell Energy Ltd.

John A. Niedermaier, B.Sc., P.Eng.(1)(2)
Petroleum Services Executive

Ronald J. Will, B.Sc.(1)(2)
Chairman of the Board
Business Executive

(1) *Member of Audit Committee*
(2) *Member of Compensation Committee*

OFFICERS

Jan M. Alston, B.A., LL.B.
President & Chief Executive Officer

Bruce J. Murray, B.Comm.
Chief Operating Officer

Terry L. Lindquist, B.Comm., C.A.
Chief Financial Officer

Richard Fedoruk, M.Sc., P.Geol.
Vice President, Exploration

Lawrence Backmeyer, B.Sc., P.Eng.
Vice President, Engineering

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Toronto Stock Exchange
Trading Symbol: **PEL**

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STANDARD ABBREVIATIONS

bbl	barrel
bbls/d	barrels per day
mbbls	thousand barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
bcf	billion cubic feet
BOE	barrel of oil equivalent (based on converting 6 mcf of gas to one barrel)
BOE/d	barrels of oil equivalent per day
GJ	Gigajoule

NOTICE OF ANNUAL MEETING

The annual general meeting for shareholders will take place on Thursday, May 23, 2002 at 2:30pm in the Bow Valley Square Conference Centre. All shareholders are invited to attend, but if unable to, are encouraged to complete and return the proxy.

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